



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Financial Audit

## Department of Health Services

Division of Behavioral Health  
Services—Title XIX and XXI  
Contract

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**Debra K. Davenport**  
Auditor General

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Department of Health Services  
Division of Behavioral Health Services  
Title XIX and XXI Contract  
Year Ended June 30, 2005

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DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

Susan Gerard, Director  
Department of Health Services

We have audited the accompanying Schedules of Revenues, Expenditures, and Encumbrances for the Department of Health Services, Division of Behavioral Health Services, Title XIX and XXI Contract for the year ended June 30, 2005. These schedules are the responsibility of the Department's management and its Division of Behavioral Health Services' management. Our responsibility is to express opinions on these schedules based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinions.

The accompanying Schedules of Revenues, Expenditures, and Encumbrances were prepared for the purpose of complying with contract requirements between the Arizona Health Care Cost Containment System (AHCCCS) and the Department of Health Services, Division of Behavioral Health Services, as discussed in Note 2, and are not intended to be a presentation in conformity with U.S. generally accepted accounting principles.

In our opinion, the Schedules of Revenues, Expenditures, and Encumbrances referred to above present fairly, in all material respects, the revenues, expenditures, and encumbrances of the Department of Health Services, Division of Behavioral Health Services, Title XIX and XXI Contract, on the basis of accounting described in Note 2.

This report is intended solely for the information and use of the Department of Health Services and is not intended to be and should not be used by anyone other than the specified party. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport  
Auditor General

October 11, 2005

Department of Health Services  
Division of Behavioral Health Services—Title XIX  
Schedule of Revenues, Expenditures, and Encumbrances  
Year Ended June 30, 2005

	<u>Revenues/ Expenditures</u>	<u>Encumbrances</u>	<u>Total</u>
Revenues			
AHCCCS capitation:			
State appropriations for match	\$221,485,029		\$221,485,029
Federal grant revenues	<u>465,959,050</u>		<u>465,959,050</u>
Total revenues	<u>687,444,079</u>		<u>687,444,079</u>
Expenditures/Encumbrances			
Program costs:			
Capitation paid	634,638,012		634,638,012
Fee for services	19,377,839		19,377,839
Medicaid special exemption payments	<u>13,750,221</u>		<u>13,750,221</u>
Total program costs	<u>667,766,072</u>		<u>667,766,072</u>
Administrative costs:			
Personal services	4,396,595		4,396,595
Employee related	1,187,686		1,187,686
Professional and outside services	1,019,781	\$ 352,099	1,371,880
In-state travel	58,751		58,751
Out-of-state travel	8,545		8,545
Aid to other organizations	53,763	15,968	69,731
Other operating	918,344	128,258	1,046,602
Equipment	116,384	49,201	165,585
Noncapital equipment	123,229	1,413	124,642
Information Technology support	419,925	9,095	429,020
Indirect costs	<u>812,127</u>		<u>812,127</u>
Total administrative costs	<u>9,115,130</u>	<u>556,034</u>	<u>9,671,164</u>
Total expenditures/encumbrances	<u>676,881,202</u>	<u>556,034</u>	<u>677,437,236</u>
Revenues over (under) expenditures/ encumbrances	<u>\$ 10,562,877</u>	<u>\$(556,034)</u>	<u>\$ 10,006,843</u>

See accompanying notes to schedules.

Department of Health Services  
Division of Behavioral Health Services—Title XXI  
Schedule of Revenues, Expenditures, and Encumbrances  
Year Ended June 30, 2005

	<u>Revenues/ Expenditures</u>	<u>Encumbrances</u>	<u>Total</u>
Revenues			
AHCCCS capitation:			
State appropriations for match	\$ 3,199,623		\$ 3,199,623
Federal grant revenues	<u>10,825,015</u>		<u>10,825,015</u>
Total revenues	<u>14,024,638</u>		<u>14,024,638</u>
Expenditures/Encumbrances			
Program costs:			
Capitation paid	12,718,639		12,718,639
Medicaid special exemption payments	<u>280,493</u>		<u>280,493</u>
Total program costs	<u>12,999,132</u>		<u>12,999,132</u>
Administrative costs:			
Personal services	242,160		242,160
Employee related	64,335		64,335
Professional and outside services	23,555	\$ 2,938	26,493
In-state travel	4,042		4,042
Aid to other organizations	80		80
Other operating	9,100	119	9,219
Equipment	1,843		1,843
Noncapital equipment	1,923	60	1,983
Information Technology support	12,237	1,011	13,248
Indirect costs	<u>38,828</u>		<u>38,828</u>
Total administrative costs	<u>398,103</u>	<u>4,128</u>	<u>402,231</u>
Total expenditures/encumbrances	<u>13,397,235</u>	<u>4,128</u>	<u>13,401,363</u>
Revenues over (under) expenditures/ encumbrances	<u>\$ 627,403</u>	<u>\$(4,128)</u>	<u>\$ 623,275</u>

See accompanying notes to schedules.

Department of Health Services  
Division of Behavioral Health Services  
Title XIX and XXI Contract  
Notes to Schedules  
Year Ended June 30, 2005

Note 1 - Reporting Entity

The Department of Health Services, Division of Behavioral Health Services is a contractor with the Arizona Health Care Cost Containment System (AHCCCS) to provide behavioral health services to eligible enrollees of the AHCCCS program who are participating in the federal Title XIX and XXI programs. The Division of Behavioral Health Services is responsible for administering the contract. Fiscal responsibility for the Division remains with the Department of Health Services and, ultimately, with the State of Arizona. Each schedule includes only that portion of the Department of Health Services, Division of Behavioral Health Services' operations that are attributable to the Title XIX and Title XXI Contract with AHCCCS.

Note 2 - Basis of Accounting

Annually, the Division is required to obtain an audit of contract revenues, expenditures, and encumbrances. For purposes of complying with the contract and to present revenues, expenditures, and encumbrances on a basis consistent with the State's accounting system, the Division has defined revenues, expenditures, and encumbrances as follows:

*Revenues*—The Division receives monthly capitation payments from AHCCCS that are comprised of state matching monies and federal grant monies. AHCCCS capitation payments are recognized as revenues when received.

*Expenditures*—The Division uses monies received from AHCCCS to pay contracted service providers and administrative costs incurred by the Division for administering the contract. Expenditures are recognized when goods or services are received and paid from revenues recognized during the year ended June 30, 2005. Expenditures paid from excess revenues of prior periods are reported to AHCCCS in separate unaudited schedules prepared by the Division.

*Encumbrances*—Encumbrances are recognized when goods or services have been ordered but have not been received as of June 30.